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MERCANTILE STORES COMPANY, INC.

ANNUAL REPORT

JANUARY 31st, 1942

15 Exchange Place,
Jersey City, New Jersey,
April 13, 1942.

To the Stockholders of
Mercantile Stores Company, Inc.:

The consolidated balance sheet of your Company and its subsidiaries at January 31, 1942, and the consolidated profit and loss and surplus accounts for the year ended that date are submitted herewith.

The net profit for the current year, before provision for taxes based on income, amounted to $1,912,941.50, the highest in many years, and provisions for Federal, State, and Canadian income and excess profits taxes amounted to $812,164.84, leaving a net profit after all taxes of $1,100,776.66. For the preceding year, the net profit, before provision for taxes based on income, amounted to $966,404.69, provisions for Federal, State, and Canadian income taxes amounted to $304,961.22, and the net profit after all taxes was $661,443.47. Such net profits were equivalent to $7.30 for the current year, and $4.28 for the preceding year, on the common stock outstanding in the hands of the public.

Dividends of $7.00 per share on the preferred stock, and $2.00 per share on the common, an aggregate of $330,631.58, were paid during the year. The undistributed income amounting to $770,145.08 was added to earned surplus, increasing the balance of such earned surplus at January 31, 1942 to $844,871.37.

Net sales, including sales of leased departments, amounted to $34,867,853.20, an increase of 18.16% over the $29,509,394.68 reported for the preceding year.

The ratio of current assets to current liabilities on January 31, 1942 was 3.6 to 1.

Inventories as of January 31, 1942 were $4,340,148.51, compared with $2,922,535.83 for the previous year. This rise in inventory resulted in a decrease in the annual rate of inventory turnover from 6.33 to 5.71. The management has continued to follow a conservative policy on inventory, but market conditions have made it necessary to anticipate purchases and the rate of turnover will probably be still lower this year.

The management believes that accounts receivable are in a satisfactory condition. The conservative policy of taking bad debt losses promptly has been continued, and a liberal reserve has been maintained.

The Company made capital expenditures of $452,000.56 for new fixtures and other equipment during the last year. The management intends to continue its policy of modernization.

The management desires to express its sincere appreciation of the loyalty and cooperation of the Company's employees.

By Order of the Board of Directors

F. G. KINGSLEY,
Chairman of the Board

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CONSOLIDATED BALANC

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 2,764,569.51
Customers' accounts receivable—		
Regular retail terms	$2,510,543.95	
Installment terms, including installments maturing after one year	1,976,385.36	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $1,348,390.50 at January 31, 1942)	400,000.00	
	$4,886,929.31	
Less—Reserves for doubtful accounts (including reserves applicable to accounts sold)	722,942.01	4,163,987.30
Due from suppliers, etc.		155,647.76
Merchandise inventories, priced on the basis of cost or market, whichever is lower, as determined by the retail inventory method		4,340,148.51
TOTAL CURRENT ASSETS		$11,424,353.08
OTHER ASSETS:		
United States Government securities deposited in escrow as guarantee of performance under a lease—at cost (quoted market value, $106,318.75)	$ 103,968.74	
Miscellaneous securities	15,220.86	119,189.60
FIXED ASSETS:		
Land and buildings owned, buildings on leased ground and leaseholds (property of a net book value of $250,047.41 is pledged to secure performance under a lease)—at cost, less reserve for depreciation of $2,336,156.76	$4,440,126.28	
Store fixtures—at cost, less reserve for depreciation of $1,359,151.06	1,392,013.19	
Delivery equipment—at appraised values as determined by the management	59,587.33	
	$5,891,726.80	
Land and buildings not used in store operations—at cost, less reserve for depreciation of $45,852.29	207,190.57	6,098,917.37
UNEXPIRED INSURANCE PREMIUMS, PREPAID RENT, SUPPLIES, ETC. (Note 2)		531,840.58
		$18,174,300.63

NOTES:

(1) Surplus of $657,989.89 is restricted by reason of purchase of treasu

(2) As a result of heavy advance buying and a consequent increas charging expenditures for supplies to profit and loss in the yea over normal inventories, as estimated by the management, ha January 31, 1943.

(3) The companies are contingently liable on customers' notes dis damages, etc., which, in the opinion of counsel for the Compan

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SHEET—JANUARY 31, 1942

LIABILITIES

CURRENT LIABILITIES:		
Current maturities of notes payable to bank, unsecured		$ 400,000.00
Accounts payable		1,377,944.96
Accrued taxes (other than Federal income), salaries, rent and interest		636,575.42
Preferred stock dividend payable February 16, 1942		10,006.50
Reserve for Federal income taxes, subject to review by U. S. Treasury Department		710,100.00
Reserve for conversion of net current assets of Canadian subsidiary		34,800.00
TOTAL CURRENT LIABILITIES		$ 3,169,426.88
NOTES PAYABLE TO BANK, UNSECURED — Due $200,000 semi-annually beginning June 30, 1942	$ 2,000,000.00	
Less—Current maturities included in current liabilities	400,000.00	1,600,000.00
RESERVES:		
For Federal income tax which may be payable in future years on gross profit deferred for Federal income tax purposes	$ 114,600.00	
For redemption of trading stamps issued prior to 1937	53,805.81	168,405.81
DEFERRED CARRYING CHARGES ON INSTALLMENT ACCOUNTS		174,392.73
CAPITAL STOCK AND SURPLUS:		
Capital stock—		
Preferred stock—7% cumulative, $100 par value—callable at $105—		
Authorized and issued, 10,410 shares (5,718 shares outstanding and 4,692 shares held in treasury)	$ 1,041,000.00	
Common stock—no par value (stated value, $36.66⅔ per share)—		
Authorized and issued, 158,238 shares (145,242 shares outstanding and 12,996 shares held in treasury)	5,802,060.00	
Surplus prior to February 1, 1935, per attached statement	6,257,633.78	
Earned surplus since February 1, 1935, per attached statement	844,871.37	
	$13,945,565.15	
Deduct—Treasury stock (3,764 shares of preferred and 10,116 shares of common stock, at par or stated value, and 928 shares of preferred and 2,880 shares of common stock, at cost—certain store managers, the president, a vice-president and the treasurer were granted options expiring on April 15, 1943 to purchase an aggregate of 2,500 shares of common stock at $17.64 per share, the price the company paid for such stock)—		
Preferred stock, 4,692 shares	$460,601.24	
Common stock, 12,996 shares	422,888.70	883,489.94 13,062,075.21
		$18,174,300.63

stock until such stock is sold or canceled.

in supplies on hand, the companies departed from their usual practice of purchased. The excess, $138,520.36, of supplies on hand at January 31, 1942 been deferred and will be charged to profit and loss during the year ending

unted in the amount of $13,777.35 and on certain suits on account of injuries, are covered by insurance.

MERCANTILE STORES COMPANY, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS AND SURPLUS ACCOUNTS
For the Year Ended January 31, 1942

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Net sales, including sales of leased departments		$34,867,853.20
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $390,143.79		33,252,299.35
Net operating profit		$ 1,615,553.85
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net)		352,988.21
		$ 1,968,542.06
Deduct:		
Interest expense		55,600.56
Net profit before taxes based on income		$ 1,912,941.50
Provision for taxes based on income:		
Federal income	$552,288.80	
Federal excess profits	171,000.00	
State and Canadian	88,876.04	812,164.84
Net profit carried to earned surplus		$ 1,100,776.66

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1941	$ 6,257,633.78

(No change occurred in this account during the year ended January 31, 1942)

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1941		$ 74,726.29
Net profit for the year ended January 31, 1942		1,100,776.66
		$ 1,175,502.95
Dividends declared:		
Preferred stock—$7.00 per share	$ 40,187.58	
Common stock—$2.00 per share	290,444.00	330,631.58
Balance, January 31, 1942		$ 844,871.37

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

67 WALL STREET
NEW YORK

TO THE BOARD OF DIRECTORS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1942, and the consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith we have examined or tested accounting records and other supporting evidence of the Company and certain of its more important subsidiaries, without making a detailed audit of the transactions, and have reviewed the system of internal control and the accounting procedures of such companies, by methods and to the extent we deemed appropriate; except that, in order to avoid possible unfavorable reception on the part of customers, we have, at the request of the management, omitted, as in prior years, the confirmation of accounts receivable by direct communication with customers.

The total assets of the companies whose records we examined represented 73.01% of the total consolidated assets, and the net sales of such companies represented 63.30% of the total consolidated net sales. The accounts of the subsidiary companies whose records we did not examine are included in the consolidated statements on the basis of company reports which were reviewed by us.

In our opinion, subject to the exception stated in the first paragraph hereof with respect to confirmation of receivables, and based on our review of company reports on unaudited subsidiary companies, the accompanying consolidated balance sheet and related consolidated profit and loss and surplus accounts present fairly the position of the companies at January 31, 1942, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles which, except for the change in the treatment of expenditures for supplies described in Note 2 to the balance sheet, have been maintained by the companies on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
April 10, 1942.